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HERSHEY

CHOCOLATE CORPORATION

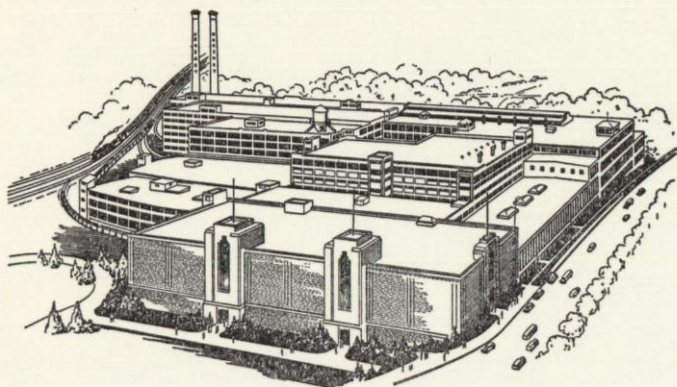
ANNUAL REPORT
DECEMBER 31, 1949

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HERSHEY

CHOCOLATE CORPORATION

HERSHEY, PENNSYLVANIA



Executive Offices and Manufacturing Plant

BOARD OF DIRECTORS

P. A. STAPLES, *Chairman*

J. J. GALLAGHER

L. W. MAJER

P. N. HERSHEY

W. E. SCHILLER

S. F. HINKLE

D. PAUL WITMER

OFFICERS

P. A. STAPLES, *President*

L. W. MAJER, *Secretary*

W. E. SCHILLER, *Treasurer and Comptroller*

TRANSFER AGENT

CITY BANK FARMERS TRUST COMPANY
NEW YORK

REGISTRAR

GUARANTY TRUST COMPANY
OF NEW YORK

AUDITORS

ARTHUR ANDERSEN & CO.
NEW YORK

*To the Stockholders of
Hershey Chocolate Corporation:*

I take pleasure in submitting herewith the financial statements of Hershey Chocolate Corporation at December 31, 1949, as examined by Messrs. Arthur Andersen & Co. These statements reflect favorable earnings for the year 1949 and a strong financial position at the close of the year. The results are generally attributable to a sustained high volume of production and sales and to lower material costs, mainly cocoa beans, with a resulting improvement in profit margins and reduction in funds invested in year-end inventories.

Sales for the year 1949 amounted to \$142,180,408, as compared with the record high of \$168,566,256 for the preceding year. The reduction in dollar sales this year was due in considerable measure to lower unit sales prices to our customers. The weights of our principal lines of consumers' chocolate bars were increased early in the year. These changes were both made possible principally by the reduction in cocoa bean prices although wages, freight and certain other items were at a higher cost level.

Net profit for 1949 amounted to \$15,481,242 and it will be noted that no adjustment of year-end inventories or reserves for purchase commitments have been required. Earnings for the year 1948 were very materially reduced as a result of adjustments to state year-end inventories at the lower of cost or market and to provide a reserve for losses on purchase commitments; after deducting such adjustments, the net profit for 1948, as previously reported to you, amounted to \$8,003,347.

Entirely apart from the effect of sales volume on earnings, the net profit from year to year can be expected to be materially influenced by fluctuations in the price of cocoa beans. Cocoa bean prices ranged widely in 1949, but were materially lower than the exceedingly high level of the preceding year, although still several times higher than pre-war prices. Toward the end of 1949 the price began to rise sharply, and at the date of this writing is materially higher than during the greater part of that year. The world production of cocoa beans apparently continues to be short of demand, and the outlook as to both supply and price is uncertain.

The prices of cocoa beans and other raw materials, which cannot be predicted, will have an important bearing on costs and earnings for the year 1950, on the amount of funds required for investment in inventories, and on the financial risk inherent in a

necessarily large inventory and commitment position. In view of this your Board of Directors still feel it is necessary to maintain the \$6,000,000 reserve for future inventory price decline appropriated from earnings in 1947.

Working capital at the close of 1949 amounted to \$44,506,782, as compared with \$37,111,104 at the close of the preceding year. Current assets aggregated \$58,409,178 and were over four times current liabilities. During the year capital expenditures of \$2,500,000 were made on the plant improvement program; and, under the present construction budget, additional expenditures totaling approximately \$5,000,000 are indicated for the next two or three years.

As stockholders have previously been advised, a major change in the Corporation's capital stock structure was effected during the past year when, on November 22, each of the 253,742 shares of non-callable Convertible Preference Stock then outstanding was reclassified into one share of Series A $4\frac{1}{4}\%$ Cumulative Preferred Stock, par value \$50 per share, one share of Series B $4\frac{1}{2}\%$ Cumulative Preferred Stock, par value \$50 per share, and one share of Common Stock. The favorable vote received from both the Convertible Preference and Common stockholders, which made this constructive development possible, is appreciated. In connection with this reclassification \$12,766,732 was transferred from earned surplus to the capital accounts, as shown in the financial statements.

As indicated in the proxy statement relative to the reclassification of the old Convertible Preference Stock, it is the disposition of the management to favor retirements of the new Preferred Stocks to the extent that such retirements can be effected consistent with the financial position of the Corporation. The current optional redemption prices of the Series A $4\frac{1}{4}\%$ and Series B $4\frac{1}{2}\%$ Preferred Stocks are \$52.50 and \$51.00 per share, respectively, and the current call price for 2% annual sinking fund purposes is \$51.00 per share for each series.

The success of our operation in 1949 reflects the loyalty and cooperation of our officers and employees, for which I wish to express my warm and personal appreciation.

Respectfully submitted,

P. A. STAPLES

President

February 20, 1950

AUDITORS' CERTIFICATE

*To the Board of Directors,
Hershey Chocolate Corporation:*

We have examined the balance sheet of Hershey Chocolate Corporation (a Delaware corporation) as of December 31, 1949 and the related statements of profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss and earned surplus present fairly the financial position of Hershey Chocolate Corporation as of December 31, 1949 and the results of its operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

New York, N. Y.
February 14, 1950.

HERSHEY CHOCOLATE CORPORATION

STATEMENTS OF PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1949

PROFIT AND LOSS

GROSS SALES, LESS DISCOUNTS, RETURNS AND ALLOWANCES.....		\$142,180,408
COST OF GOODS SOLD, SHIPPING, SELLING, AD- MINISTRATIVE AND GENERAL EXPENSES		117,549,166
		<u>\$ 24,631,242</u>
PROVISION FOR TAXES ON INCOME:		
Federal income tax.....	\$ 8,600,000	
Commonwealth of Pennsylvania income tax....	550,000	9,150,000
Net profit for the year		<u>\$ 15,481,242</u>

NOTE: Costs and expenses include provision for depreciation of plant and equipment in the amount of \$762,545.

EARNED SURPLUS

EARNED SURPLUS AT DECEMBER 31, 1948		\$ 29,154,896
NET PROFIT FOR THE YEAR 1949		15,481,242
		<u>\$ 44,636,138</u>
DEDUCT:		
Dividends—		
Dividends paid on Convertible Preference Stock (\$5.00 per share)	\$ 1,269,215	
Dividends declared on Cumulative Preferred Stock, payable February 15, 1950—		
Series A 4¼%, \$.52-9/10 per share	134,230	
Series B 4½%, \$.55-8/10 per share	141,588	
Dividends paid on Common Stock:		
\$.25 on shares outstanding the full year;		
\$.75 on shares issued November 22, 1949	4,819,372	
	<u>\$ 6,364,405</u>	
Earned surplus transferred to capital in connection with reclassification on November 22, 1949 of each share of Convertible Preference Stock into one share of Series A 4¼% Cumulative Preferred Stock, one share of Series B 4½% Cumulative Preferred Stock and one share of Common Stock	12,766,732	19,131,137
EARNED SURPLUS AT DECEMBER 31, 1949		<u>\$ 25,505,001</u>

HERSHEY CHOCOL

BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash		\$ 6,579,749
United States Government securities		23,936,409
Accounts receivable, less reserves of \$395,597		4,125,383
Inventories (lower of average cost or market)—		
Raw materials, goods in process and		
finished goods	\$22,995,651	
Manufacturing supplies	597,278	23,592,929
Prepaid insurance, taxes, etc.		174,708
Total current assets		<u>\$58,409,178</u>

PLANT AND PROPERTY, at cost:

Land	\$ 119,657	
Buildings and improvements	10,722,706	
Machinery and equipment	17,758,041	
Construction in progress	239,457	
	<u>\$28,839,861</u>	
Less—Reserves for depreciation	15,697,010	13,142,851
		<u>\$71,552,029</u>

NOTE: The Preferred Stock is redeemable by the Corporation. Redemption prices per share -- both series, \$51. Upon voluntary liquidation the Preferred Stock is entitled to \$51 per share. Involuntary liquidation, to \$50 per share. Such prices and amounts are plus accrued dividends (with certain exceptions) conditioned upon compliance with sinking fund provisions requiring redemption of shares of each series per annum.

STATE CORPORATION

DECEMBER 31, 1949

LIABILITIES

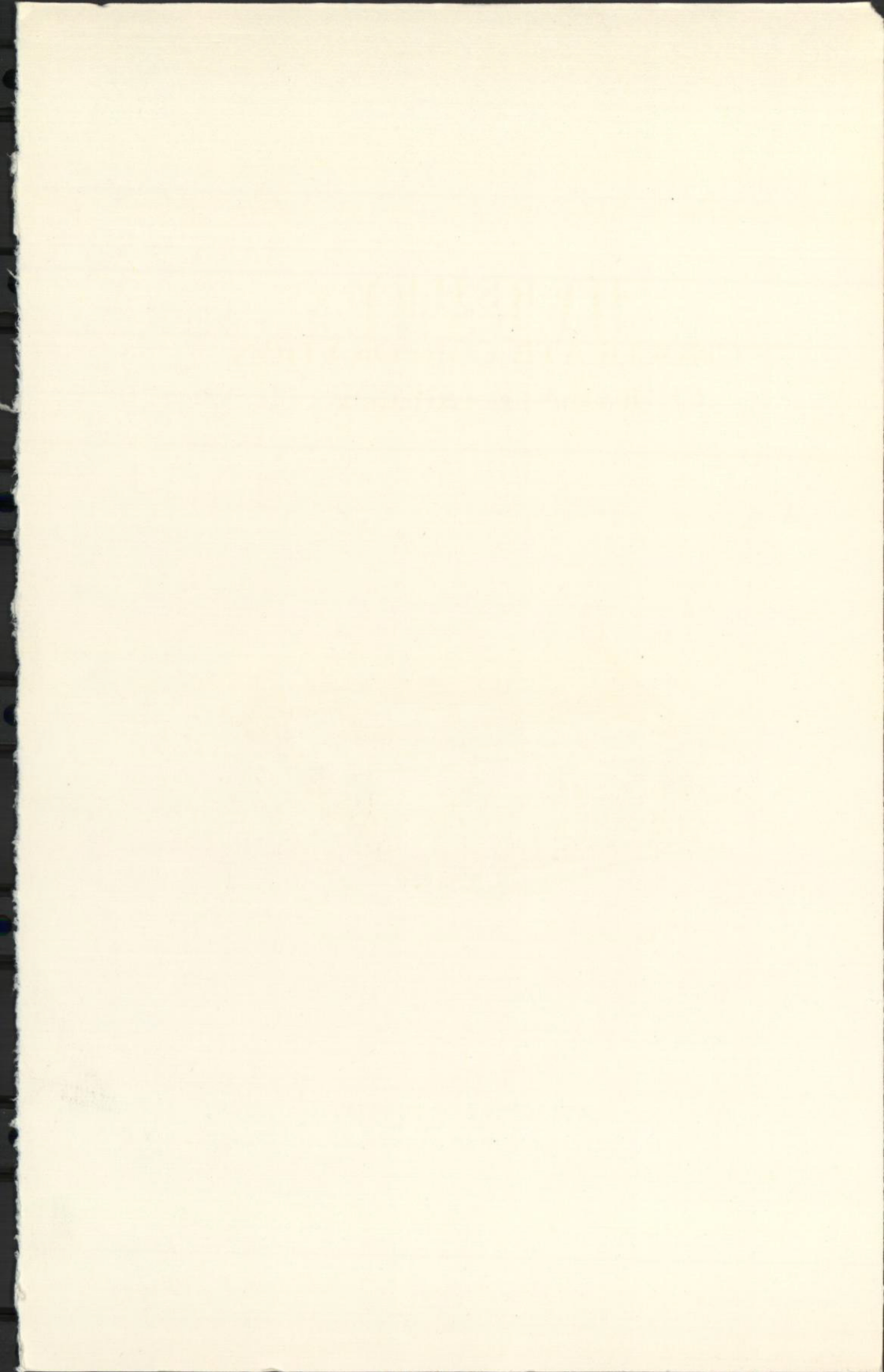
CURRENT LIABILITIES:

Accounts payable and accrued liabilities.....	\$ 4,052,228
Dividend payable February 15, 1950 on Cumulative Preferred Stock.....	275,818
Reserve for Federal and State taxes	9,574,350
Total current liabilities	<u>\$13,902,396</u>

CAPITAL STOCK AND SURPLUS:

Cumulative Preferred Stock, par value \$50 per share (See Note)—		
Series A 4¼% - authorized 253,843 shares; outstanding 253,742 shares.....	\$12,687,100	
Series B 4½% - authorized 253,843 shares; outstanding 253,742 shares.....	12,687,100	
	<u>\$25,374,200</u>	
Common Stock, without par value—		
Authorized 3,000,000 shares; outstanding 2,311,295 shares	770,432	
Reserve for future inventory price decline appropriated from 1947 profits	6,000,000	
Earned surplus	<u>25,505,001</u>	<u>57,649,633</u>
		<u><u>\$71,552,029</u></u>

During 1950 are: Optional -- Series A, \$52.50; Series B, \$51; Pursuant to sinking fund a preferential amount equal to its then applicable optional redemption price and, upon ends. Commencing January 1, 1951 dividends on, or purchases of, Common Stock are the Corporation to have purchased or redeemed a cumulative average of 5,075 Preferred



HERSHEY CHOCOLATE CORPORATION

EXECUTIVE OFFICES AND MANUFACTURING PLANT
HERSHEY, PENNSYLVANIA

WAREHOUSES

Cambridge, Mass.
Chicago, Ill.
Cincinnati, Ohio
Denver, Colo.
Detroit, Mich.
Houston, Texas
Jacksonville, Fla.
Kansas City, Mo.
Little Rock, Ark.

Los Angeles, Cal.
Milwaukee, Wis.
New York, N. Y.
Oklahoma City, Okla.
Portland, Ore.
St. Louis, Mo.
St. Paul, Minn.
Salt Lake City, Utah
San Francisco, Cal.

Seattle, Wash.

SALES OFFICES

In all principal cities in the United States

HERSHEY'S PRODUCTS

FOR THE CONSUMER

MILK CHOCOLATE BARS

MILK CHOCOLATE KISSES

ALMOND BARS

BAKING CHOCOLATE

SEMI-SWEET BARS

DAINTIES

KRACKEL BARS

BREAKFAST COCOA

MR. GOODBAR

CHOCOLATE SYRUP

MINIATURE BARS

HOT CHOCOLATE POWDER

FOR INDUSTRIAL USERS

(Confectionery, Baking, Ice Cream, and other Industries)

CHOCOLATE COATINGS

COCOA POWDER

UNSWEETENED CHOCOLATE

CHOCOLATE SYRUP

COCOA BUTTER

